

Message Text

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S E C R E T SECTION 1 OF 4 BUENOS AIRES 3837

DEPT PASS AID

E.O. 11652: GDS

TAGS: MASS, AR

SUBJECT: US SECURITY ASSISTANCE ASSESSMENT FOR ARGENTINA

REF: A. STATE 031505 (DTG 152126Z FEB 74) NOTAL

B. FOREIGN ASSISTANCE ACT (FAA) OF 1973

C. ARGENTINA POM FY 76-80 (NOTAL)

1. IN RESPONSE TO REF (A) THE FOLLOWING OVERALL ASSESSMENT OF US SECURITY ASSISTANCE PLANNED FOR ARGENTINA FOR FY 1975 AND RECOMMENDED FOR FY 1976-80 IS HEREBY FORWARDED, AND IS CONCURRED IN BY THE CHIEF OF MISSION.

A. PLANNED GRANT AID MILITARY TRAINING FOR FY 1975 FOR ARGENTINA IS \$700,000. PLANNED FMS CREDIT FOR ARGENTINA FOR FY 1975 IS \$30 MILLION.

B. RECOMMENDED FY 1976-80 SECURITY ASSISTANCE LEVELS AS REFLECTED AND SUPPORTED IN THE FY 76-80 POM FOR ARGENTINA ARE AS FOLLOWS (IN MILLIONS OF DOLLARS):

	76	77	78	79	80
GRANT AID TRAINING	1.0	1.0	0.9	0.8	0.7
FMS CREDIT	34.0	55.0	55.0	60.0	56.8

IN ADDITION TO INDICATED FMS CREDIT LEVELS ARGENTINA IS EXPECTED TO PROCURE APPROXIMATELY \$10 MILLION ANNUALLY IN FMS

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CASH PURCHASES.

C. ARGENTINA HAS, SINCE 1968, RECEIVED US MILITARY ASSISTANCE GRANT AID FOR TRAINING ONLY. GRANT AID MATERIAL WAS TERMINATED FOR ARGENTINA IN 1968.

D. ARGENTINA HAS CONSISTENTLY UTILIZED ALL GRANT AID TRAINING AND FMS CREDIT OFFERED ANNUALLY, AND HAS IN ADDITION PURCHASED MATERIAL AND ADDITIONAL TRAINING FOR FMS CASH ON A REGULAR BASIS.

E. ARGENTINA IS CURRENTLY CONTEMPLATING A MIX OF DOD DIRECT AND COMMERCIAL USG GUARANTY FMS CREDIT FOR FY 74 AND HAS IN THE PAST UTILIZED A FMS CREDIT MIX AS OFFERED BY DOD. THE CURRENT FY 74 FMS CREDIT OF \$22.5 MILLION IS \$6.5 MILLION DIRECT AND \$16.0 COMMERCIAL USG GUARANTY CREDIT.

2. ASSESSMENT OF THE BASIC ASPECTS OF US SECURITY ASSISTANCE FOR ARGENTINA LEAD TO THE FOLLOWING CONCLUSIONS:

A. NEED. PAST USG SECURITY ASSISTANCE FOR ARGENTINA HAS SUPPORTED A SOUND PROGRAM OF REASONABLE FORCE MODERNIZATION BY THE ARGENTINE ARMED FORCES. THIS SECURITY ASSISTANCE PROGRAM, LARGELY FMS CREDIT, HAS COINCIDED WITH ARGENTINE DESIRES TO EQUIP THEIR ARMED FORCES WITH US EQUIPMENT AS A FIRST CHOICE SOURCE WHENEVER PRICE AND AVAILABILITY PERMITTED. ONLY IN CASES OF HIGH PRICE OR NON-AVAILABILITY HAVE ARGENTINE SERVICES GENERALLY TURNED TO THIRD COUNTRY SOURCES. IN THE TIME PERIOD 1967 TO 1972, THE ARGENTINE SERVICES TURNED TO THIRD COUNTRY SOURCES DUE TO USG RESTRICTIONS ON SALE OF MILITARY HARDWARE. USG RESTRICTIONS ON SALE OF "SOPHISTICATED" HARDWARE STILL INFLUENCE GOA TO BUY FROM THIRD COUNTRIES, THIS IS ESPECIALLY NOTABLE IN THE CASE OF MISSILE SYSTEMS.

OF CRITICAL IMPORTANCE IS THE FACT THAT ARGENTINE MILITARY BUDGETS HAVE NEVER ALLOWED ANY LARGE SCALE PROCUREMENT POSTURE. THE NEED TO UPDATE OUTDATED OR AGED EQUIPMENT HAS BEEN OF A CONTINUING NATURE. IN NO REAL SENSE HAVE ARGENTINE SERVICES APPROACHED A STATE OF EQUIPMENT MODERNIZATION THAT COULD EXCEED REASONABLE MODERNIZATION. IN MANY AREAS THEY ARE FORCED TO LIVE WITH OLDER EQUIPMENT, SHIPS AND AIRCRAFT SOLELY DUE TO THE VERY HIGH COST OF MODERN WEAPONS SYSTEMS. PLANNED AND RECOMMENDED US SECURITY ASSISTANCE LEVELS COUPLED WITH ARGENTINE SELF-FINANCING AND LOANS FROM OTHER COUNTRIES WILL ONLY ENABLE ARGENTINA TO MAINTAIN A MINIMUM LEVEL OF FORCE MODERNIZATION. THERE IS ALSO A CLEAR BENEFIT FOR THE U.S. FOR

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THE ARGENTINE ARMED FORCES TO BE ABLE TO LOOK UPON THE UNITED STATES AS A COUNTRY RESPONSIVE TO THEIR NEEDS FOR MINIMAL FORCE MODERNIZATION. THIS NEED COINCIDES WITH A TIME OF GRAVE POLITICAL UNCERTAINTY WHEN INTERNAL POLITICAL TERRORISM IS EXPECTED TO CONTINUE TO DEGRADE THE POLITICAL STABILITY OF THE NATION. AS THE STRONGEST INSTITUTION FOR NATIONAL STABILITY, THE ARMED FORCES, IN SUPPORTING DEMOCRATIC PROCESSES IN THE COUNTRY, MUST STILL ACCEPT THEIR FUNDAMENTAL PROFESSIONAL RESPONSIBILITY

FOR THEIR COUNTRY'S NATIONAL DEFENSE CAPABILITY AGAINST THE THREATS, WHICH IN THEIR JUDGEMENT, MAINFEST THEMSELVES AGAINST NATIONAL POLITICAL STABILITY. IF ARGENTINE MILITARY LEADERS ARE UNABLE TO RETAIN CONFIDENCE IN THEIR OWN MILITARY EFFECTIVENESS AS ARMED FORCES, THEY MAY ENCOUNTER A PROFESSIONAL DEMORALIZATION WHICH COULD LEAD TO FRUSTRATIONS, RESULTING IN TURNING AWAY FROM US SOURCES AND TOWARD MORE RESPONSIVE BUT NON-DEMOCRATICALLY BASED POLITICAL GOVERNMENTS IF THESE SOURCES BECAME THEIR BEST SOURCE OF MILITARY MATERIAL RESPONSIVENESS.

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B. EFFECTIVENESS. HERETOFORE US RESPONSIVENESS IN MEETING ARGENTINE MILITARY SALES DESIRES HAS BEEN MARGINAL DUE TO LACK OF EQUIPMENT AVAILABILITY (TO INCLUDE LEGISLATIVE RESTRICTIONS) AT COMPETITIVE PRICES, TOGETHER WITH LOW FMS CREDIT LEVELS. THIS LACK OF RESPONSIVENESS IS CLEARLY ATTESTED TO BY ARGENTINE PROCUREMENT OF EQUIPMENT FROM EUROPE IN QUANTITIES FAR EXCEEDING PROCUREMENT FROM THE U.S., DUE BOTH TO US SALES RESTRICTIONS IN THE "SOPHISTICATED" AREA (FRENCH MIRAGE AIRCRAFT, AMX TANKS), AND IN THE COMPETITIVE PRICE AREA (UK BUILT MODERN WARSHIPS AND WEST GERMAN GUILT NEW SUBMARINES). IN SPITE OF THESE ASPECTS THE ARGENTINE ARMED FORCES INDICATE A PREFERENCE FOR US ORIGIN MATERIAL, AND ESPECIALLY FOR US EQUIPMENT FOLLOW-ON SUPPORT. IF THE US IS ABLE TO MEET PLANNED AND RECOMMENDED FMS CREDIT LEVELS AND COUNTER PRICE AND AVAILABILITY

COMPETITION FROM THIRD COUNTRIES, THE US CAN EXPECT TO HOPEFULLY RECAPTURE A POSITION OF PRIME SUPPLIER TO THE ARGENTINE ARMED FORCES. THEREBY THE US MAY BE ABLE TO ESTABLISH ITSELF AS A DEPENDABLE SOURCE OF MILITARY PROCUREMENT, A POSITION WHICH IT HAS IN RECENT YEARS DECISIVELY LOST TO THIRD COUNTRIES IN EUROPE. ARGENTINA WILL OTHERWISE UNDOUBTEDLY CONTINUE TO GO WHEREVER NECESSARY TO MEET ITS REQUIREMENTS, AND THE USG WILL FORFEIT ITS OPPORTUNITY TO MORE RESPONSIVE COUNTRIES WHERE ARGENTINE MILITARY PROCUREMENT IS CONCERNED. THIS WOULD LEAVE
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THE FIELD TO OUR ADVERSARIES, BOTH ECONOMIC AND POLITICAL. A PRIME EXAMPLE OF THE U.S. OPTING OUT OF THE COMPETITION IS IN THE AREA OF NEW SHIP CONSTRUCTION. DURING RECENT YEARS THE ARGENTINE NAVY HAS TURNED TO EUROPE, SPECIFICALLY TO THE UK AND W GERMANY, FOR PURCHASE OF TWO MISSILE EQUIPPED FRIGATES AND TWO HIGHSPEED, MODERN DIESEL SUBMARINES. THE ARGENTINE NAVY IS NOW SEEKING OFFERS FOR CONSTRUCTION OF SIX MISSILE EQUIPPED DESTROYER ESCORTS TO BE CONSTRUCTED (READ ASSEMBLED) IN ARGENTINA. THESE NEW SHIPS ARE REPLACING THE AGING DESTROYERS AND SUBMARINES, ALL OF US ORIGIN, WHICH COMPOSE THE CORE OF THE ARGENTINE FLEET. BY 1980 - 1985 TIMEFRAME ALL OF THE EXISTING DESTROYERS WILL BE REPLACED. ANY FAILURE OF THE U.S. TO COMPETE AND WIN THE NEW SHIP CONSTRUCTION CONTRACTS WOULD RESULT IN SEVERE LOSS IN US POLITICAL, MILITARY, AND ECONOMIC INFLUENCES. THE ARGENTINE NAVY TIES AND RELATIONSHIPS WITH THE U.S. WOULD DIMINISH AND THIRD COUNTRY INFLUENCES WOULD CORRESPONDINGLY INCREASE.

C. INTERRELATIONSHIP BETWEEN SECURITY ASSISTANCE ELEMENTS.

IN SUPPORT OF THE PRINCIPAL OBJECTIVES OF THE MILITARY ASSISTANCE PROGRAM, AS OUTLINED IN PARAGRAPH 4A OF REFERENCE (A), THE UNITED STATES MUST MAINTAIN STRONG TIES WITH THE ARGENTINE ARMED FORCES IN THE RELATED AREAS OF DOCTRINE, TRAINING AND EQUIPMENT MODERNIZATION. CONTINUATION OF U.S. INFLUENCE WITH ARGENTINE MILITARY REQUIRES CONTINUED SUPPORT OF THE INTERRELATED MILITARY ASSISTANCE TRAINING PROGRAM AND OF THE FOREIGN MILITARY SALES CREDIT PROGRAM. HISTORICALLY THE ARGENTINE ARMED FORCES (PRIOR TO WW II) OR TO THE U.S. (POST-WWII) OR TO A COMBINATION (POST-1966). THE CONTINUATION OF U.S. TIES AND RELATIONSHIPS IN DOCTRINE, TRAINING, AND EQUIPMENT (READ TOTAL INFLUENCE) IS BASED ON THE THREE PILLARS OF (1) THE MILITARY ASSISTANCE TRAINING PROGRAM, (2) THE ADVISORY EFFORT OF THE MILITARY GROUP AND ITS THREE SERVICE SECTIONS, AND (3) EQUIPMENT SALES WHICH ARE BASED ON FOREIGN MILITARY SALES AND FMS CREDIT. THE THREE ARE MUTUALLY SUPPORTING AND INSEPARABLE IN INSURING CONTINUED U.S. INFLUENCE. THE ARGENTINE ARMED FORCES FAVOR U.S. DOCTRINE, TRAINING AND EQUIPMENT. HOWEVER, THEY ARE NOT CAPTIVES OF THE U.S. AND WILL LOOK ELSEWHERE FOR THEIR SUPPORT IF THE U.S. IS NOT FORTHCOMING AND COMPETITIVE. IN THIS FRAMEWORK THE MILITARY ASSISTANCE

GRANT AID TRAINING PROGRAM IS ESSENTIAL TO MAINTAIN WITHIN THE
ARGENTINE ARMED FORCES U.S. DOCTRINE, U.S. METHODS, AND U.S.
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SYSTEMS. AN EXTREMELY IMPORTANT ELEMENT OF THIS TRAINING PROGRAM IS THE CULTURAL PRO-U.S. INDOCTRINATION OF ALL ARGENTINE OFFICERS WHO ATTEND U.S. SCHOOLS AND WHO BECOME ASSOCIATED WITH THE U.S. PEOPLE AND U.S. WAY OF LIFE. THE FMS CREDIT PROGRAM IS ESSENTIAL TO ASSURE THAT U.S. EQUIPMENT AND THE FINANCING OF THAT EQUIPMENT ARE COMPETITIVE WITH THAT OFFERED BY THIRD COUNTRIES. U.S. DOCTRINE, TRAINING AND INFLUENCE WILL REMAIN DOMINANT ONLY SO LONG AS THE ARGENTINE ARMED FORCES ARE LARGELY EQUIPPED WITH U.S. MATERIEL. AS INDICATED SO VIVIDLY IN THE CASE OF THE FRENCH SALE OF MIRAGES TO THE AAF, TRAINING AND DOCTRINE AND POTENTIALLY INFLUENCE SHIFT TO THE COUNTRY OF ORIGIN OF THE PRIMARY WEAPON SYSTEM. THIS IMPORTANT INTER-RELATIONSHIP OF DOCTRINE, TRAINING, WEAPON SYSTEMS (TOTAL INFLUENCE) IS LONG LASTING. ONCE A MAJOR WEAPON SYSTEM IS INTRODUCED, SUPPORT AND INFLUENCE FOLLOW ON FOR 10 TO 20 YEARS AND THE INDIVIDUAL ORIENTATION LASTS A LIFETIME.

3. IN ARRIVING AT THE CONCLUSION DERIVED THROUGH THIS ASSESSMENT THE IMPACT OF THE FOLLOWING SOURCES OF ADDITIONAL ASSISTANCE RECEIVED BY ARGENTINA HAS BEEN CONSIDERED:

A. OTHER (I.E., NON-SECURITY) U.S. ECONOMIC ASSISTANCE TO ARGENTINA.

(1) IT IS NOT CURRENTLY EXPECTED THAT THE UNITED STATES GOVERNMENT WILL PROVIDE BILATERAL ECONOMIC ASSISTANCE TO ARGENTINA OVER THE NEXT SEVERAL YEARS. EXPORT-IMPORT BANK CREDITS HELP TO FINANCE US EXPORTS TO ARGENTINA. THE LEVEL OF SUCH CREDITS MIGHT REACH AROUND \$50 MILLION PER YEAR OVER THE NEXT SEVERAL YEARS.

(2) DEVELOPMENTAL ASSISTANCE FOR ARGENTINA FOR FY75 - 79 INCLUDES NO AID LOANS, AID GRANTS, PL-480 OR OTHER ASSISTANCE.

(3) ARGENTINA AID PROGRAM SUMMARY:

THE BILATERAL AID PROGRAM IN ARGENTINA STARTED IN 1956 AND WAS PHASED OUT IN JUNE 1971. THIS DECISION REFLECTED THE COMPARATIVE HEALTHY CONDITION OF THE ARGENTINE ECONOMY PERMITTING IT TO DRAW UPON EXTERNAL RESOURCES AVAILABLE FROM INTERNATIONAL LENDING AGENCIES AS WELL AS THE PRIVATE SECTOR. DURING THE YEARS OF THE BILATERAL PROGRAM, AID FUNDS WERE USED TO FINANCE PROJECTS IN AGRICULTURE, EDUCATION, PUBLIC ADMINISTRATION, ETC., AND LOANS WERE MADE FOR HIGHWAY CONSTRUCTION,

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FEASIBILITY STUDIES AND FOR THE AGRICULTURAL SECTOR. IN ADDITION LOW COST HOUSING WAS STIMULATED THRU RESOURCES SUPPLIED THRU THE HOUSING INVESTMENT GUARANTEE (HIG) PROGRAM. SINCE JUNE 1971, EMPHASIS HAS BEEN ON PHASING OUT CURRENT LOAN ELEMENTS WHICH HAD NOT BEEN TERMINATED AS OF THE 30TH OF JUNE 1971. IN ADDITION, CERTAIN AID RESOURCES WERE MADE AVAILABLE TO ARGENTINE INSTITUTIONS WHICH HAD INTERESTS IN AND THE CAPACITY TO PROVIDE TRAINING OR TECHNICAL ASSISTANCE OPPORTUNITIES FOR NEIGHBORING COUNTRIES.

AT THE PRESENT TIME, WITH VERY FEW EXCEPTIONS, ALL BILATERAL AS WELL AS ARGENTINE REGIONAL ACTIVITIES, BOTH GRANTS AND LOANS, WILL HAVE BEEN TERMINATED BY JUNE 30, 1974. AFTER THAT DATE, THE ONLY REMAINING AID ACTIVITIES IN ARGENTINA SHOULD BE THOSE RELATING TO THE NARCOTICS PROGRAM, HOUSING INVESTMENT GUARANTEE, REGIONAL/TECHNICAL AIDS CENTER (RTAC), THE HIGHWAY TRUST FUND GROUP (FHWA) AND THE REGIONAL AUDIT OFFICE. IT IS POSSIBLE THAT THE HIG PROGRAM WILL VIRTUALLY COME TO AN END BY JUNE 30 SINCE APPROVED GUARANTEES WILL HAVE BEEN DISBURSED BY THAT DATE. THE RTAC PROGRAM PRODUCES PUBLISHED MATERIAL FOR DISTRIBUTION TO OTHER LA USAID'S AND AS A BRANCH OFFICE OF RTAC IN MEXICO AND SHOULD CONTINUE FOR SOME TIME. THE TRUST FUND PROGRAM IS 100 PERCENT GOA-FINANCED AND UNTIL GOA SO DECIDES WILL CONTINUE TO SUPPORT TWO OR THREE HIGHWAY SPECIAL-SECRET

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ISTS.

ALTHOUGH AID OPERATIONS ARE THUS BEING REDUCED TO AN ABSO-

LUTE MINIMUM, ARGENTINA CONTINUES TO BE THE RECIPIENT OF SIZE-ABLE LOANS FROM THE INTER-AMERICAN DEVELOPMENT BANK AND THE WORLD BANK, AS WELL AS PRIVATE SECTOR SOURCES FROM THE DEVELOPED WORLD. ARGENTINA'S ABILITY TO DRAW FROM SUCH SOURCES IS DEPEND-ENT, AMONG OTHER THINGS, ON ITS ABILITY TO PROPERLY UTILIZE EXTERNAL RESOURCES WHILE MAINTAINING A SOUND ECONOMY. IN RECENT YEARS, ARGENTINA'S ECONOMY GROWTH RATE HAS BEEN ONE OF THE LOWEST IN LA, IN PART REFLECTING A HIGH RATE OF INFLATION. INVESTMENTS BY THE PRIVATE SECTOR HAVE BEEN ADVERSELY AFFECTED BY THE FACT THAT THERE HAS BEEN A FEELING OF GREAT UNCERTAINTY AS TO THE DIRECTION IN WHICH POLITICAL DEVELOPMENTS WERE MOVING AS WELL AS WHAT THE ACTUAL ECONOMIC PLANS AND POLICIES WERE. SINCE ARGENTINA HAS THE INGREDIENTS FOR DYNAMIC GROWTH IT IS DIFFICULT TO FORESEE A TIME WHEN SHE WOULD AGAIN REQUIRE THE TRADITIONAL TYPE OF CONCESSIONAL ASSISTANCE. FURTHERMORE IN THE LOAN AREA GOA LEADERSHIP CONSTANTLY REITERATES AN INSIST-ENCE UPON VERY FLEXIBLE TERMS. THE ARGENTINE GOVERNMENT INSISTS UPON BEING THE MASTERS OF ITS OWN ECONOMY.

B. THIRD COUNTRY MILITARY ASSISTANCE TO ARGENTINA.

ALTHOUGH THERE IS CONSIDERABLE COMPETITION FOR SALES THERE IS NO KNOWN THIRD COUNTRY GRANT AID ASSISTANCE PROGRAM TO ARGENTINA. THERE ARE FRENCH AND GERMAN TECHNICAL AND TRAIN-ING MISSIONS (FRENCH ARMY MISSION, FRENCH MIRAGE TECHNICIANS, AND GERMAN SUBMARINE TECHNICIANS) BUT THEY RENDER PURCHASED, NOT GRANT, SERVICES.

C. THIRD COUNTRY ECONOMIC ASSISTANCE TO ARGENTINA.

THERE IS NO KNOWN THIRD COUNTRY ECONOMIC ASSISTANCE TO ARGENTINA BEYOND LOANS (INCLUDING LOANS FROM USSR AND EASTERN BLOC NATIONS) TO ENABLE ARGENTINA TO PURCHASE/IMPORT MATERIAL FROM THE LENDING COUNTRY. THE CONCESSIONAL ASPECTS OF SOME INTEREST RATES, ESPECIALLY OF USSR LOANS, CANNOT HOWEVER BE OVERLOOKED WHEN CONSIDERING ECONOMIC ASSISTANCE PER SE.

D. ASSISTANCE PROVIDED TO ARGENTINA BY INTERNATIONAL FINAN-
CIAL ORGANS.

(1) CREDITS FROM INTERNATIONAL AGENCIES WILL CONTINUE TO PLAY A SIGNIFICANT ROLE IN ARGENTINA'S ECONOMIC DEVELOPMENT. ARGENTINA RECENTLY HAS IMPROVED ITS RELATIONS WITH THE INTER-AMERICAN BANK AND ANNUAL OBLIGATIONS FROM THAT INSTITUTION MIGHT AVERAGE 150 MILLION DOLLARS OVER THE NEXT SEVERAL YEARS.

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THE WORLD BANK IS EXPECTED TO CONTINUE TO LEND TO ARGENTINA AT A LEVEL OF ABOUT 50 MILLION DOLLARS PER YEAR. NO ADDITIONAL INTERNATIONAL MONETARY FUND LENDING TO ARGENTINA HAS BEEN PRO-
JECTED. HOWEVER, IT IS ALWAYS POSSIBLE THAT FUTURE BALANCE OF PAYMENTS PROBLEMS WILL REQUIRE UTILIZATION OF IMF RESOURCES.

(2) EXTERNAL LOANS AND CREDITS - ARGENTINA

(3) INTERNATIONAL AGENCIES

	FY75	FY76	FY77	FY78	FY79	FY80
IBRD	50	50	50	50	50	50

IDB	150	150	150	150	150	150
UNDP	3	3	3	3	3	3
IMF						
TOTAL	253	253	253	253	253	253

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4. IN SUMMARY, THE ROLE OF U.S. SECURITY ASSISTANCE FOR ARGENTINA PLANNED FOR FY75 AND RECOMMENDED FOR FY76-80 ENCOMPASSES THE CONTINUATION OF A MINIMAL GRANT AID MILITARY TRAINING PROGRAM WHICH BEGINS A PHASEDOWN AT THE END OF THE PLANNING PERIOD. THIS SECURITY ASSISTANCE PROGRAM ALSO ENCOMPASSES INCREASED FMS CREDIT LEVELS BASED ON ARGENTINE NEEDS FOR REASONABLE FORCE MODERNIZATION THROUGH INCREASED PURCHASED OF U.S. EQUIPMENT.

FAILURE TO MEET THE PLANNED AND RECOMMENDED LEVELS WILL CONCEIVABLY RESULT IN US OPTING OUT IN FAVOR OF POLITICAL AND ECONOMIC COMPETITORS. IT IS CERTAIN THAT THE ARMED FORCES OF ARGENTINA WILL CONTINUE THEIR MILITARY TRAINING AND PROCUREMENT THROUGH SOURCES WHICH CAN AND WILL AFFORD THEM WHAT THEY DESIRE IN ORDER TO MAINTAIN AND IMPROVE THE ARGENTINE ARMED FORCES' CAPABILITIES IN BOTH MATERIEL AND PERSONNEL. NO OTHER U.S. ASSISTANCE PROGRAM REMAINS IN EFFECT WITH REGARD TO ARGENTINA.

THERE EXISTS A GROWING POTENTIAL FOR ARGENTINA TO INITIATE PURCHASES OF MILITARY EQUIPMENT FROM SOVIET BLOC COUNTRIES. WHEREAS TO DATE, THROUGH MAY 1974, THE ARGENTINE ARMED FORCES

HAVE NOT PROCURED ANY SOVIET BLOC EQUIPMENT, THE CHANGING
POLITICAL SITUATION IN ARGENTINA MAY RESULT IN GOA DECISION
TO INITIATE SUCH PURCHASES. FACTORS WHICH HIGHLIGHT THIS POSSI-
BILITY INCLUDE:

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A. PERON'S "THIRD POSITION" PHILOSOPHY WHICH COULD RESULT
IN POLITICAL DECISION TO PURCHASE SOME MILITARY EQUIPMENT FROM
USSR TO BALANCE PURCHASES FROM U.S.

B. THE LARGE LOW INTEREST LOANS RECENTLY OFFERED TO ARGENTINA
BY USSR AND OTHER WARSAW PACT NATIONS.

C. SOVIET INTEREST IN SELLING EQUIPMENT TO ARGENTINA AT LOW
"BUY-IN" PRICES AND LOW INTEREST RATES WOULD BE NATURAL FOLLOW-ON
TO SOVIET SALES BEING MADE IN PERU (NOTE: BUENOS AIRES PRESS
INDICATES THAT USSR DEMONSTRATED MIG 21 AIRCRAFT TO AIR FORCE
MEMBER OF ARGENTINE DELEGATION DURING MAY 1974 VISIT TO MOSCOW
OF MINISTER OF ECONOMY GELGARD).

SHOULD MILITARY EQUIPMENT SALES BY USSR OR OTHER EASTERN
BLOC NATION BE CONSUMMATED, THERE CAN BE SIGNIFICANT LONG TERM
IMPACT RESULTING FROM TRAINING AND FOLLOW-ON SUPPORT REQUIREMENTS.

AMBASSADOR AND COUNTRY TEAM STRONGLY SUPPORT RETENTION
OF SECURITY ASSISTANCE LEVELS RECOMMENDED/PLANNED FOR
ARGENTINA DURING THE PERIOD FY 75-80.

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